

Message Text

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PAGE 01 BONN 04871 01 OF 02 251543Z

43

ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01

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FM AMEMBASSY BONN

TO SECSTATE WASHDC 8932

INFO AMEMBASSY LONDON

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LIMITED OFFICIAL USE SECTION 01 OF 02 BONN 04871

DEPARTMENT PASS TREASURY

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: BUNDESTAG DEBATES FEDERAL DRAFT BUDGET
FOR 1975

REF: (A) BONN 4692 (NOTAL); (B) BONN 2433

1. THE OPPOSITION SEIZED UPON THE OPPORTUNITY OF THE
BUDGET DEBATE TO LAUNCH A FAR-RANGING ATTACK ON THE
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PAGE 02 BONN 04871 01 OF 02 251543Z

GOVERNMENT'S ECONOMIC POLICY MANAGEMENT. FRANZ JOSEF

STRAUSS BLAMED THE GOVERNMENT FOR THE MOST SEVERE AND DANGEROUS RECESSION SINCE CURRENCY REFORM WHICH WAS BEING ACCOMPANIED BY UNPRECEDENTED AND RISING PUBLIC SECTOR DEFICITS. HE CHARGED THAT THE GOVERNMENT'S COURSE WAS "ALMOST NEUROTIC" IN REFERENCE TO WHAT HE IMPLIED WERE STOP-AND-GO POLICIES. STRAUSS REQUESTED THAT THE CHANCELLOR TELL THE PUBLIC JUST HOW THE HUGE AND GROWING DEFICITS ARE TO BE FINANCED AND WHETHER OR NOT VALUE ADDED TAX INCREASES WERE IN THE OFFING FOR 1976 OR THEREAFTER. ANOTHER OPPOSITION SPEAKER STATED THAT THE DRAFT DM 155 BILLION BUDGET WILL NEITHER CONTRIBUTE TO THE STABILITY NOR TO THE REVIVAL OF ECONOMIC ACTIVITY AND THE REDUCTION OF UNEMPLOYMENT, ADDING THAT THE CONTEMPLATED EXTREMELY HIGH BORROWING ADDS TO THE FINANCIAL CRISIS.

2. THE GOVERNMENT SPOKESMEN REPLIED TO THE S OPPOSITION'S CRITICISM BY POINTING OUT THAT THE ECONOMIC AND POLITICAL SITUATION IN THE FRG IS SOUND BY INTERNATIONAL STANDARDS AND REFERRED TO THE CRITICS' CHARGES OF FINANCIAL CHAOS AS BEING HYSTERICAL. CHANCELLOR SCHMIDT CONTRASTED THE 1967 SLUMP AS A HOMEMADE ONE WITH THE CURRENT SITUATION BEING ONE REFLECTING WORLDWIDE RECESSIONARY TRENDS. ACCORDING TO THE CHANCELLOR, REDUCED INTEREST RATES, MODEST WAGE INCREASES AND A NEWLY INTRODUCED INVESTMENT BONUS HAVE PAVED THE WAY FOR AN IMPROVEMENT OF BUSINESS EXPECTATIONS DURING THE COURSE OF THE YEAR. FINANCE MINISTER APEL DEFENDED THE DEFICIT SPENDING AS PART OF THE INTERNATIONAL TREND TO CHANGE TO MORE EXPANSIONARY BUDGETARY POLICIES. HE ALLEGED THAT THE TALK OF GOVERNMENT BANKRUPTCY IS NOT ONLY STUPID AND INCORRECT BUT ALSO HIGHLY PROVINCIAL. HE COMPARED THE FEDERAL BORROWING REQUIREMENTS FOR 1975 OF THE FRG WITH THOSE CONTEMPLATED BY THE FY 76 US BUDGET, WHICH HE SAW RISING DURING THE LEGISLATIVE PROCESS TO SOME \$70 BILLION. HE MENTIONED OECD PRESSURES ON THE FRG FOR EVEN MORE EXPANSIONARY POLICIES; HOWEVER, HE SAID THAT

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PAGE 03 BONN 04871 01 OF 02 251543Z

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PAGE 01 BONN 04871 02 OF 02 251544Z

43

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LIMITED OFFICIAL USE SECTION 02 OF 02 BONN 04871

ADDITIONAL STIMULATION IS NOT CONTEMPLATED. IN
RESPONSE TO EARLIER WARNINGS THAT THE FEDERAL BORROWING
IS ABOUT TO EXCEED THE CONSTITUTIONAL LIMIT, HE REPLIED
THAT THIS LIMIT HAS NOT BEEN REACHED AND MOREOVER DOES
NOT APPLY IN TIMES OF RECESSION. THE FINANCE MINISTER
STATED THAT THE CAPITAL MARKET SHOULD BE ABLE TO COPE
WITH THE FINANCING OF THE RISING PUBLIC SECTOR DEFICIT.

3. COMMENT: A. THE MOST APPARENT QUESTIONABLE

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PAGE 02 BONN 04871 02 OF 02 251544Z

TECHNICAL FEATURE OF THE GOVERNMENT'S BUDGET
PRESENTATION IS THAT IT IS BASED ON ANTICIPATED NOMINAL

GNP GROWTH IN 1975 OF 8.5 PERCENT. AS NOTED IN REFTEL B A MORE REALISTIC ASSUMPTION WOULD BE FOR NOMINAL GNP TO GROW BY 7 PERCENT. THEREFORE THE REVENUE ESTIMATE CONTAINED IN THE CURRENT FEDERAL DRAFT BUDGET IS APPARENTLY OVERSTATED ON THIS ACCOUNT ALONE (THERE ARE OTHERS, SEE REFTEL B)BY AT LEAST 1.7 BILLION DM, IF NOT MORE. THE RESULTANT LARGER DEFICIT, WHICH SOONER OR LATER WILL SURFACE, WILL THEREFORE DO ANYTHING BUT DIMINISH THE GOVERNMENT'S POTENTIAL VULNERABILITY TO, ALBEIT SOMEWHAT DEMAGOGIC, FUTURE SIMILAR "FISCAL IRRESPONSIBILITY ATTACKS BY THE OPPOSITION. POLITICAL IF NOT ECONOMIC EXIGENCIES WILL REQUIRE SEVERE BUDGETARY TIGHTNESS FROM HERE UNTIL THE FALL 1976 ELECTIONS. ANY NON-ESSENTIAL DEMANDS ON THE PUBLIC PURSE, BE THEY OF DOMESTIC OR INTERNATIONAL ORIGIN, WILL LIKELY BE MET WITH MORE THAN THE NORMAL SCROOGE-LIKE RESPONSE.

B. BOTH THE GOVERNMENT AND THE OPPOSITION USED THE BUDGET DEBATE AS A VEHICLE FOR CARRYING OUT ELECTION CAMPAIGNING. MANY OF THE SPEAKERS WITH AN EYE ON THE MAY 4 NORTH RHINE-WESTPHALIAN ELECTIONS ENGAGED IN POLITICAL ATTACKS AND COUNTERATTACKS THAT WENT BEYOND THE DIFFERENCES OVER THE FEDERAL BUDGET (E.G., FRANZ JOSEF STRAUSS' SONTHOFEN SPEECH WAS THE SUBJECT OF CONSIDERABLE CRITICISM BY SPD SPEAKERS AND STRAUSS DEFENDED HIMSELF AGAIN SPD "MUDSLINGING"). ONE OBSERVER COMMENTED THAT THE BUDGET DEBATE COULD HAVE BEEN REDUCED TO A ONE-DAY AFFAIR HAD THE ELECTIONEERING ON NON-BUDGET SUBJECT BEEN LEFT OUT.
HILLENBRAND

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